Imperfect Storm

The Looming Human Capital Crisis in California's High-Cost Cities

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FEDERAL EXECUTIVE BOARD

Prepared by the Federal Executive Boards of
Greater Los Angeles and the San Francisco Bay Area

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Purpose

This report is intended to:

- alert federal pay policy makers to a daunting challenge being faced today by most of the federal departments and agencies located in California;
- warn of the disastrous consequences California and the nation may face should this seemingly inconsequential "crisis" not be remedied soon;
- offer potential solutions for review and consideration; and
- encourage timely legislative action, in coordination with the Executive Branch, to identify and implement an effective solution.

Executive Summary

As you are obviously aware, federal departments and agencies perform many services that are essential to the safety, security, health, and welfare of our nation and people. As we have seen in past events, a breakdown in the ability of federal organizations to perform their assigned missions and functions well, be they preventive or response-oriented, can place the nation and our citizens at risk.

We also know that the foundation of any organization is its people, and that an organization's performance is indisputably tied directly to the quality and sufficiency of its employees. Unfortunately, most of the federal organizations in California's very high-cost areas such as Greater Los Angeles (GLA) and San Francisco Bay (SFB) areas are having great difficulty in recruiting and retaining qualified, capable employees. Thousands of important positions are vacant, and the percentage of unfilled positions increases every day—we simply cannot find and keep enough good people. The foundation is crumbling.

The anticipated effect of this human resource crisis is that federal organizations in GLA and SFB may not be able to perform their day-to-day and emergency responsibilities successfully, thus exposing the public to increased risks and dangers associated with natural disasters, health crises, terrorism, and crime.

The main reason for the federal recruitment and retention problem is simply insufficient financial compensation. Income directly affects the standard of living and, subsequently, the quality of life. Generally, federal employment offers income sufficient for employees across the U.S. to maintain an acceptable standard of living. However, a large number of federal employees and their families living in very high-cost areas like GLA and SFB cannot achieve a decent standard of living based on their federal pay. And most people outside of these areas who are seeking to become or are already federal employees are well aware of the financial hardship issues. The net result is that federal employees in these areas are transferring, resigning, and retiring in droves while it's nearly impossible to entice qualified candidates to accept positions in the GLA and SFB areas.

The root cause behind the recruitment and retention crisis is the formula currently used in establishing locality pay—it doesn't provide equitable compensation for employees in very high-cost areas. The formula is based on cost-of-labor instead of cost-of-living. Normally, the former is a direct reflection of the latter, but this isn't the case for California's high-cost areas where the difference between cost-of-labor and cost-of-living is extreme. The single biggest factor affecting the cost-of-living in California is housing costs (owning or renting), which are and will remain among the highest in the nation.

Other negative influences on federal recruitment and retention in California include a federal pay cap that denies senior-level employees income, payment for overtime worked and, of course, very long, difficult, stressful, and expensive commutes.

To solve our recruitment and retention crisis, we recommend that the following actions be taken:

- At a minimum, make housing costs a key factor in determining financial compensation for federal employees working in California high cost areas. Such compensation may take the form of a variable housing allowance (VHA) separate from salary, based on housing costs by geographic areas, similar to the proven equitable approach used by the military.
- Authorize and fund signing and retention bonuses (similar to the military) for key, hard-to-fill positions.
- Revise federal pay cap guidelines to include overtime and performance pay.

- Optimally, calculate federal base pay for high-cost areas on the cost-of-living as opposed to cost-of-labor, and make federal pay comparable to pay in the non-Federal sector.

The federal recruitment and retention problem in California is less than obvious, but make no mistake, it is a crisis having first order implications: our national security, regional and national economy, and citizens' personal well-being all are potentially at stake. Therefore, we urge policy makers to assess this situation and act quickly and decisively to fix the problem before we experience more "worst nightmares" that could have been prevented, mitigated, or contained.

Section 1 – Background

For many years, it has been increasingly difficult for federal departments and agencies located in California to hire and retain qualified personnel. By early 2001, it had become clearly evident that the staffing problem was approaching crisis proportions for federal hiring officials. However, on September 11 the global war on terrorism rightly became an all-consuming issue of concern within the federal sector. Other matters, including the federal staffing problem, paled in comparison to terrorist attacks on our nation and were, thus, moved to the back burner.

Since 2001, the recruitment and retention problems in California have only increased. While the war on terrorism has increased the roles, responsibilities, activities, and number of personnel positions of many federal organizations, California's cost-of-living, urban sprawl, and traffic congestion has become even worse—so recruitment and retention rates are more dismal than ever. But now, federal managers are acknowledging the undeniable linkage between the adequacy of federal staffing and the Federal Government's posture in assuring the security, safety, and welfare of the U.S. and its citizens. It begged this question: Are federal organizations in California able to acquire and hold onto the talent needed to perform their vital missions and functions?

In response to this question, the Federal Executive Boards (FEBS)[1] for the Greater Los Angeles (GLA) and San Francisco Bay (SFB) areas launched a joint effort in June 2005 to take on the staffing issue. The FEBS conducted a survey of FEB member agencies to gauge the extent of this staffing problem, assess the potential implications of the problem from a national and public safety perspective, and determine the causes of the problem.

All of the agencies contacted listed, as their number one issue, the need for more competitive salaries to enable them to recruit and retain qualified people. **Appendix A** provides the survey's results, but briefly:

- Sixty-four percent of federal agencies have problems recruiting qualified staff especially in the GS-5 to GS-9 grade range.
- Thirty-seven percent of vacancies take more than six months to fill.
- Low salaries in our high-cost-living areas are the primary obstacles to recruitment.
- Federal jobs in the GLA and SFB areas are training grounds for employees who quickly leave for lower-cost areas.

After analyzing the survey results, the joint FEB team went to work on developing options for enhancing recruitment and retention with a focus on addressing the financial compensation aspect.

Section 2 – Impact of the Staffing Crisis on the U.S.

Since the horrific events of September 11, the role of the Federal Government in protecting the homeland has been expanded significantly. As President George W. Bush stated on March 24, 2006, "Our nation is also fighting a war on terror, and terrorists crossing the border could create destruction on a massive scale, the responsibility of government is clear: We must enforce the border."[2]

But without highly trained, experienced, and competent people, how will our departments and agencies be able to protect our borders, prevent and manage potential epidemics in densely populated cities, and prepare for and respond to inevitable natural disasters? Furthermore, the most likely terrorist targets and locations for severe natural disasters are the high cost-of-living California cities.

"The Department of Homeland Security (DHS) is hemorrhaging on the front lines and higher up," said New York Professor Paul Light. "It can't help morale for the rank-and-file employees when you have so much turnover," said Representative Thompson, ranking member of the House Homeland Security Committee. "There just appears to be a continuous brain drain out of the agency."[3]

A DHS official assigned to California recently stated: "We cannot afford distractions when dealing with national security." The time and resources spent on continually hiring and training an adequate workforce, only to have them leave to go to a lower-cost area or work in a local bank or retail store because the pay is better, is a distraction.

A recent article in *Washington Technology*[4] titled "Vacancies Raise Questions, Lower Morale at DHS" stated that "Vacancies and personnel turnover have reached such high levels at the Homeland Security Department that they may be hampering the agency's effectiveness according to several industry and policy experts." Although this article was focusing on headquarters staffing, the turnover and impact on national security is even greater in the GLA and SFB areas.

As we commemorate the 100-year anniversary of the earthquake and fire that ravaged San Francisco, we are reminded that California has had, and will have, more natural disasters. "I wake up every day knowing that the people of our city could be impacted by an earthquake, wildfire or terrorist event." —Mayor Antonio Villaraigosa, City of Los Angeles.[5]

Given our regional complexity, national economic significance and large population, California is critical to the security and economic health of the nation. Yet natural disasters in California could cripple the nation's economy on a scale that would dwarf the impact of the devastation recently seen along the Gulf Coast.

California's ports offer an entry route into the U.S. for terrorists, weapons of mass destruction, drugs, and contraband. And they may become targets for terrorist attack. The ports may also be affected by major natural disasters. More than 50% of the nation's imports enter through three California ports: Long Beach, Los Angeles and Oakland. Oakland is the fastest growing port in the West[6] and the Long Beach and Los Angeles ports, adjacent to each other and serviced as a single port by the federal agencies, is the fifth largest in the world.[7] Yet Customs and Border Protection (CBP) staffing has an unacceptable vacancy and turnover rate in these locations.

Many of the nation's most critical infrastructures exist in California's high cost cities. To protect them and the millions of residents who reside in these mega-cities, the full complement of federal agencies is needed to keep them safe and secure. However, there is no incentive within the existing federal pay system for employees to serve in these high-cost cities. Consequently, employee caliber and staffing levels suffer. Do these citizens in these areas deserve less protection from the Federal Government than other areas in the U.S.?

Section 3 – The Recruitment and Retention Problem

Nearly twenty years after the first reports on recruitment and retention problems were published, the GLA and SFB areas have extraordinarily high numbers of vacancies in all agencies, across a wide range of occupations, and at all grade levels. The problem has been ignored largely because of other, higher priorities such as the war on terrorism, immigration, emergency preparedness, and disaster recovery. **What hasn't been recognized is that the numbers and abilities of federal employees who play vital roles in supporting national and regional priorities are in serious decline.**

Federal leaders in the field have been reluctant to openly discuss their staffing problems and voice their concerns for a variety of reasons (e.g., professional image, organization agenda, and career progression). When managers have acted to address their staffing problems by requesting additional funding for recruitment or retention bonuses or other personnel management incentives, the requests were denied.

Federal employees at all grade levels are leaving California in large numbers, and it's very difficult to find qualified replacements. The bottom line is: federal employees cannot afford the cost-of-living in these areas, and locality pay has failed to remedy the problem. Compounding the problem, as Linda M. Springer, Director of the Office of Personnel Management (OPM) said, "The Federal Government is about to be hit by not just a retirement wave but by a full-blown retirement tsunami."[8]

In comparing our retention with that of other areas, we learned that OPM doesn't consider a transfer from one federal agency to another in a different geographic location as a loss because the transfer was not a loss to the federal workforce.

"Staffing Shortages Loom Large in Report on Woeful Response to Katrina"[9] was a recent headline in *The Washington Post*. The article reported that "When Katrina roared ashore, FEMA had about 500 jobs that were vacant, and eight of 10 regional directors were in an acting capacity." This staff shortage extends into Region IX. With the staffing shortages in most California-based federal agencies—how will we be able to respond effectively to our next disaster? How do we keep threats from entering our country when our CBP operation is working at a 30% vacancy rate because we can't retain employees in these high-cost areas?

What could be the impact on fire prevention and control considering our current 46% vacancy rate at the Angeles National Forest?

In California, federal firefighter salaries are significantly lower than state and local fire department salaries. This disparity primarily affects the GLA area where six county governments and 187 city governments pay higher salaries for firefighters than the Federal Government. The following table compares the GS-462 special salary rate with other agencies in three key positions.

Angeles National Forest Example

In a split second, smoking debris escapes from a controlled fire and sets the wilderness ablaze. As the flames shoot higher and spread beyond the perimeter, the firefighters work harder to contain the destruction. Can you imagine if this scenario happened in your backyard and there weren't enough firefighters to control the blaze? This is a real possibility, especially in the Angeles National Forest (ANF) – where only about half of its firefighting positions are filled.

Firefighters protect our natural resources, our property, and our lives. In the ANF, inadequate staffing could increase damage and destruction. Without an adequate number of skilled firefighters, the ANF may not be able to perform its mission critical assignments as envisioned in the National Fire Plan.

As mentioned earlier, 46% of the ANF career fire positions are vacant, and this number is expected to increase, (e.g., OPM reports that 58% of Federal Government supervisory employees will be eligible to retire by 2010). Unless ANF offers a more competitive salary and benefits program, few will be willing to take these jobs.

The ANF has an excellent reputation for training highly skilled firefighters who have technical, leadership, and incident management skills on worldwide assignments. With such outstanding credentials, ANF-trained firefighters are lured away regularly by other fire departments who offer better pay and benefits. This loss of experience represents a significant loss of investment as well. With an annual 23% attrition rate, the cost of training replacements for firefighter apprentices is $1.3 million.

As is stands now, the ANF is unable to recruit and retain skilled firefighters, endangering life and property.

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Annual Salaries	Firefighter	Engineer	Captain
Los Angeles County Fire Department	$47,494	$70,279	$83,105
Los Angeles City Fire Department	$65,724	$77,064	$90,360
Burbank City Fire Department	$51,228	$60,564	$70,812
California Department of Forestry and Fire	$49,690	$58,278	$74,621
Angeles National Forest (GS-5/7/8 Step 5)	$36,115*	$44,729	$49,539

**Reflects full-time annual salary—current tour of duty is less than full-time*

Section 4 – Federal Locality Pay: The Primary Culprit

The root of the problem lies in the formula used by OPM to establish federal base and locality pay. The OPM formula uses the Department of Labor's (DOL) statistics for the cost-of-labor within geographic areas, **rather than cost-of-living.** It has been presumed that the cost-of-labor reflects the cost-of-living. But in California, labor and living costs are mutually exclusive.

In the mid-1980s, the FEBs in the high-cost cities of Los Angeles, New York City, and San Francisco published reports detailing federal agencies' recruitment and retention problems due to the high costs-of-living and absence of regional adjustments for federal pay. Subsequently, an immediate Interim Geographic Allowance of 8% was given to all federal employees in those locales with the promise of closing the greater than 35% pay gap between federal and private sector employees to 10% by 2001.[10]

But unfortunately, not only has the pay gap grown to 39.2% in 2005, implementation of locality pay has failed to address the real issue of providing Federal employees comparable pay to create a consistent standard of living regardless of where they work. After 20 years, this dangerous trend has not been reversed. We are now dangerously close to experiencing critical mission failures in day-to-day operations such as protecting our ports and borders, as well as during crises or emergencies.

Many civil service and pay reform proposals are being debated in Washington, D.C. Most of the proposals use a *market-based labor rate* formula similar to the one currently used to calculate locality pay. The main difference between the new proposals and the current formula is that the data would be stratified by occupation and location. But as we have seen, using cost-of-labor as the sole basis for establishing federal pay is not working. There is broad agreement that the Federal Employee Pay Comparability Act of 1990 (FEPCA) has not accomplished what was originally intended, so why base the "new" pay system on a methodology having the same flaw? **Appendix B** outlines the FEPCA.

To ensure Congressional passage of FEPCA, a "Rest of U.S." (RUS) category was created in addition to the locality pay areas identified as having recruitment and retention problems. This raised the base pay for all federal employees in the continental United States (CONUS) not just those living in high-cost areas. The result was that the financial relief so desperately needed in high-cost areas was diverted and diluted. The difference in pay between high- and lower-cost areas hasn't been enough to draw and retain employees to the high-cost areas.

Appendix C shows the 2006 Locality Pay Areas with two columns—Percent Reported by OPM[11] and Percent Actual, (i.e., amount above RUS areas). For 2006, the RUS locality pay rate was set at 12.5%. At first glance, it appears that federal employees in San Francisco and Los Angeles are getting paid 28.68% and 23.18% more, respectively, than employees in lower-cost areas. But this is not the case. As shown in the Percent Actual column, San Francisco and Los Angeles pay rates are only 16.6% and 10.66% higher than RUS pay rates. There is no incentive to move to or remain in a high-cost area where the cost-of-living far exceeds a 10 - 17% pay differential over the RUS areas.

To illustrate the point, employees in San Francisco, Los Angeles, and New York City received an 8% "Emergency Interim Geographic Adjustment" in 1990. Yet 16 years later, pay in Los Angeles is only a little more than 10% above the RUS pay. Federal pay rates in Houston, Texas, are only 2.31% and 3.19% less than San Francisco and Los Angeles, respectively. Yet the difference in cost-of-living between Houston and California cities is much higher. This does not reflect an equitable situation for employees living in high-cost areas. In fact, it's a severe penalty.

Although locality pay does not factor in cost-of-living, employees certainly do when deciding where they can afford to live. **Appendix D**, compiled from a frequently-visited website for relocation comparisons,[12] shows the percent reduction in salary an employee would take while maintaining the same standard of living if he or she moves from Los Angeles or San Francisco to ten other major cities. **For example, an employee could move from San Francisco to Houston and make 48% less and still live comfortably.**

Despite federal pay being higher in the Bay Area, it doesn't go as far as it would in other areas. A professional earning the Bay Area's medium income of $70,000 a year would earn about $53,000 in Minneapolis, a difference of $17,000. However, in Minneapolis, the professional's annual expenses would be about $28,000 less than in the Bay Area.[13] In net dollars, the professional would be $11,000 ahead in Minneapolis.

As mentioned earlier, the problem is the formula developed by OPM and DOL. It measures cost-of-labor, not cost-of-living. Presumably, the cost-of-labor reflects the cost-of-living, but in California that isn't the case for a variety of reasons. One is California's high immigrant population. According to the U.S. Census Bureau, there are cities in the GLA area that have more foreign than native-born residents. Immigrants generally accept lower pay and are willing to endure lower standards of living (e.g., multiple families sharing small houses or apartments). This obviously drives the cost-of-labor in the GLA area downward and skews the data on which locality pay in California is based.[14] The practice of multiple families sharing a residence is confirmed by the Department of Housing and Urban Development's (HUD) occupancy statistics report that California has almost twice the national average for number of residents per household.

It's well documented that Congress, the White House, and OPM have known for years that the locality pay methodology is flawed,[15] yet it continues to be used. The result is that employees at the same grade and step level are being over-compensated in low-cost areas and under-compensated in high-cost areas. It's alarming that policy makers are planning on using a similarly flawed formula for current pay reform proposals.

To the federal policy makers who develop, approve, and implement pay programs for federal employees, it may appear that locality pay is working well and that employees in most locality pay areas are enjoying a comfortable standard of living. However, their failure to include cost- of-living as a major factor in the formulation of locality pay has reduced the effectiveness and contradicted the intent of locality pay in high-cost locations. Because agencies in these high-cost communities have offices all over the country and are covered by a national-compensation system, it is very easy for employees living in high-cost areas to transfer to more affordable locations while retaining their tenure, benefits, status, etc.

A national pay system that fails to factor in the cost-of-living in high-cost areas (primarily the cost-of-housing) in determining salaries clearly discriminates against workers in these areas.

Section 5 – The Pay Cap: A Contributing Factor

Federal civil service employees' incomes are indexed to Executive Level IV, which means that regardless of eligibility for locality pay or any other pay supplement, salaries for executive occupations, (i.e., doctors, attorneys) are capped at $143,000 a year. Because of this cap, many GLA and SFB directors, administrators, and other professionals at the higher-grade levels do not receive their locality or other pay supplements. They lose thousands of dollars each year because of this artificial ceiling.

The current regulations require that individual agencies submit appeals to OPM to raise the cap, but this process is very time consuming. OPM must recognize that this is a problem cutting across many federal agencies in certain locales and then raise the ceiling accordingly. With this current system, there are no incentives for employees to assume higher levels of responsibility, work longer hours, or perform at higher levels as they cannot be monetarily compensated for the additional or exceptional work.

President Bush's 2007 budget will try to address some of the recruitment and retention issues by splitting the pay 2.2% increase into three parts rather than two (GS increase + locality). This calls for allocating part of the 2.2% based on "special-rate increases." Agencies would pay more for employees with high recruitment and retention value. Right now, the annual pay raise is untouchable for agencies seeking more money to cure their recruitment and retention problems; it's given to all employees. The President's proposal, which requires legislation, would change that and OPM was clear about the motivation behind this move. In a statement, the agency said, "This proposal is designed to send a signal that the federal pay adjustment process should be 'smarter,' i.e., more strategic and market-sensitive."[16]

The salary cap issue is even more pronounced for law enforcement employees who are eligible for Law Enforcement Availability Pay (LEAP). LEAP provides a set percentage rate over their base salary in exchange for employees to be available whenever the agency needs them. LEAP was a solution implemented many years ago to control overtime expenses.

In the GLA and SFB areas, federal law enforcement officers (LEOs) are paid 38% to 50% less than their local law enforcement counterparts. In these locations, federal law enforcement employees or candidates inclined to pursue a career in public service have choices beyond lower paying federal LEO jobs. For example, in the GLA Locality Pay Area alone, there are six county governments and 187 city governments, all of whom pay a higher salary for their law enforcement personnel. In many cases, the local governments' salaries are not only higher but also require less stringent qualifications, (e.g., education and suitability). It is all right for the Federal Government to have higher requirements for our workforce since we are responsible for the nation's safety and security, but shouldn't the salaries reflect these more stringent requirements?

In addition to higher salaries and, in some cases, better benefits, non-federal law enforcement employees have the opportunity to more than double their base pay in overtime salary unlike the LEAP that limits payment regardless of the number of hours worked. Most agencies do not offer overtime regardless of the number of hours worked. Because of our staff shortages in these large urban centers that lead the nation in many key crime indicators, our federal law enforcement employees work many hours without compensation.

Currently, many LEOs see on their bi-weekly pay statement the amount earned over the pay cap that they are not going to be paid. They see the number of hours of work they donate to the government without pay. On average, it's about ten hours per week per employee. Is it even legal for federal employees to work for free?

Many first-line supervisors and most second-line supervisors are at or exceed the current pay cap, hence there is no incentive to perform at a higher level.

This current pay cap damages morale and discourages qualified law enforcement supervisors to move into management positions since they will have far greater responsibilities but no additional pay.

Further, OPM has reported that 58% of supervisory employees will be eligible to retire by 2010. In large cities, retired law enforcement personnel are highly sought after by the private and public sectors. Many leave law enforcement the day they are eligible and take a non-federal law enforcement job that may more than double their salary. Without a fair compensation system, how can we entice our law enforcement leaders to stay? And if they don't, how will we fill this leadership vacuum? How can federal law enforcement employment compete?

The City of San Francisco Controller's Office, covering the first 11 months of the fiscal year ending June 30, 2005, showed that dozens of lieutenants, captains, commanders, and deputy chiefs had all put in for overtime on top of their base salaries, which are above $100,000. One deputy chief's pay went up enough to come within a few thousand dollars of the $212,000 salary the police chief collected (without overtime). Two hundred fifty police officers whose base pay is in the $80,000 range increased their pay by 20 percent or more to reach the $100,000 mark.[17]

Here are two examples of how we don't adequately compete with local law enforcement agencies:

San Francisco Police Department – The current annual entry-level salary for police officers is $57,916 - $80,649 (for non-supervisory officers) not including overtime or other special pay rates. The federal equivalent (including LEAP) is $39,987 (GS-5).

Los Angeles County Sheriff Department – The current annual entry-level salary for a deputy sheriff (non-supervisory, high school diploma requirement) is $71,844 not including overtime or other special pay rates. The federal equivalent is $38,278 (GS-5).

Section 6 – California's Booming Economy Drives Up Housing Costs

The current pay system fails to account for the cost-of-housing by geographic area. In some areas, real estate prices simply don't correlate with the cost-of-labor as in California. Further, the current pay cap adversely affects the hiring and retention of qualified, experienced civilian managers. The non-federal public and private sector can offer much higher financial compensation than the Federal Government.

Unlike many parts of the country, the California economy is strong. Federal agencies are recruiting for talent in a very competitive job market. California's unemployment rate has dropped to 4.9%. Eleven percent of all employed workers in the U.S. are employed in the State of California. California produces 12 - 15% of the total Gross Domestic Product (GDP) of the nation. In the past year, California has added 223,000 jobs, and today there are nearly17 million workers in the state.

Congressman Gary G. Miller, who represents constituents in three of the six counties in the GLA area, serves on the House Financial Services Committee (which oversees the real estate market) and the House Transportation and Infrastructure Committee. While discussing California's high cost-of-housing at a Housing Summit held in Ontario, CA, he stated, "People should not be discriminated against because of where they live." Yet federal employees who live in these high-cost California cities do not enjoy equitable compensation and a standard of living equivalent to federal employees at the same grades in other parts of the U.S.

In California, many federal salaries are considered "low-income" and "very low-income" and would qualify for Section 8 of the Public Housing Program under the Department of Housing and Urban Development (HUD). HUD sets the income limits for eligibility for these programs based on the median household income and the housing costs for the community.[18] It's embarrassing that federal pay is so low for some federal employees that they qualify for public housing. Examples of HUD income requirements for the GLA and SFB areas are listed below. The highest grade of eligibility indicated includes all lower grades, and all household incomes are based on a four-person household.

San Francisco County – less than $90,500 (approximately a GS-13)
Santa Clara/Silicon Valley – less than $84,900 (approximately a GS-13)
Oakland/Alameda County – less than $66,250 (approximately a GS-11)
Orange County – less than $61,450 (approximately a GS-11)
Ventura County – less than $64,650 (approximately a GS-11)
Los Angeles/Long Beach – less than $51,400 (approximately a GS-10)
Sonoma County – less than $58,000 (approximately a GS-10)
Santa Barbara County – less than $51,750 (approximately a GS-9)
Riverside-San Bernardino County – less than $44,550 (approximately a GS-8)
San Joaquin County – less than $42,150 (approximately a GS-7)

This chart shows that it's not just home ownership that is elusive to many federal employees in high-cost areas. Rent is also problematic on a federal salary.[28] According to *Forbes*, in 2005 eight of the nation's 20 highest residential rent areas are in California.[19]

Rank	California City/County	$/Sq foot
4	San Francisco	$22.48
8	Los Angeles	$20.34
9	San Jose	$20.23
10	Orange County	$19.54
11	San Diego	$19.19
12	Oakland	$17.66
16	Riverside/San Bernardino	$14.81
20	Sacramento	$13.16

The average federal employee in California is a GS 9/Step 3, so in the following table we used that pay rate for each location identified. Financial planners advise that a household should not spend more than 30% of Gross Annual Salary on a mortgage or rent. As this chart shows, the "Rest of U.S." Locality Pay Area is right where it should be—27% of gross salary is required to pay for a "Rest of U.S." median-priced home. **In Los Angeles and San Francisco, it takes 65% and 83% of salary, respectively, to afford a median-priced home**. After mandatory withholdings (e.g., taxes, health insurance, etc.), **net pay dwindles, and a median-priced home in the SFB area requires more than one's take home pay.**

LOCALITY AREA COMPARISON

	Los Angeles (2)	San Francisco (3)	Houston (4) (5)	Washington DC (5)	National Average (5)
Median Housing Prices	$512,400	$685,000	$145,500	$417,850	$197,400
Federal Pay: GS-9/3	$50,160	$52,400	$47,847	$47,847	$54,819
Locality Pay %	23.18%	28.68%	26.37%	17.50%	12.52%
% of gross income required for a mortgage (1)	65%	83%	17%	55%	27%

(1) *Loan assumptions: 10% down; 5.9% interest rate.*

(2) *LA area housing rates vary from a low of $356,000 in San Bernardino County to $620,000 in Orange County. The median home price stated here is an average of the counties in the Locality Pay Area. Source:* **www.car.org** *– January 2006.*

(3) *SF area housing rates vary from a low of $549,000 in Sonoma County to $817,000 in Marin County. The median home price stated here is an average of the counties in the Locality Pay Area. Source:* **www.car.org** *– January 2006.*

(4) *Texas has no state income tax.*

(5) *Source:* **www.realtor.org** *– January 2006.*

In some cases, federal employees are a burden on state and local governments. The State of California's Housing Finance Agency has programs in place to assist low-income, first-time homebuyers. Access to this assistance is limited based on funds available in the state's budget. The eligibility for this social-service program (based on a 3+ person household) is as follows:

County	Moderate Income	GS	Low Income	GS
Alameda County	$ 115,920	14	$ 68,558	11
Los Angeles County	$ 91,700	13	$ 54,234	10
Marin County	$ 137,679	15	$ 82,607	13
Napa County	$ 103,460	14	$ 53,208	9
Orange County	$ 107,520	14	$ 63,590	11
Riverside County	$ 77,980	12	$ 38,938	5
San Bernardino County	$ 77,980	12	$ 38,433	5
San Francisco County	$ 137,679	15	$ 82,607	12
Santa Barbara County	$ 90,580	13	$ 53,572	10
Ventura County	$ 96,720	14	$ 58,032	11

These charts show clearly that the root cause of the staffing problem in the GLA and SFB areas is driven by high-cost housing that is not factored into the pay formula. **Therefore, a pay benefit tied to the cost-of-housing is the best solution**. There is reluctance to raise salaries because the cost-of-living fluctuates continuously. And what if the cost-of-housing in California drops dramatically (i.e., the alleged "housing bubble" bursts)?

In California, there is no "bubble," and ignoring the pay problem will not solve it. Four of the fastest growing areas in the U.S. are located here. California's constantly increasing population will sustain the serious housing shortage. There are not enough units for the current population! Supply will never catch up with demand, and this will continue to drive housing costs even higher. According to Lucetta Dunn, Director, California's Department of Housing and Community Development, the state's population has increased a minimum of 500,000 every year since 1950, which would require 250,000 new housing units per year just to keep pace. California has not reached that number of new units in any of the past 55 years, so every year the disparity between available housing (at any price) and the demands of the population grow. This is why California's housing prices keep going up.

Median Home Prices for Existing Single-Family Homes in Metropolitan Areas				
Region		2003	2004	2005 p
Entire USA		$170,000	$184,100	$207,300
Northeast		$190,500	$220,000	$244,300
Midwest		$141,300	$149,000	$166,000
South		$157,100	$169,000	$178,400
West		$234,200	$265,800	$313,700
Rank*	**Metropolitan Area**	**2003**	**2004**	**2005 p**
1	San Jose – Sunnyvale – Santa Clara CA	$593,000	$698,500	$744,500
2	San Francisco – Oakland – Fremont CA	$558,100	$641,700	$715,700
3	Anaheim – Santa Ana – Irvine CA	$487,000	$627,300	$691,900
4	San Diego – Carlsbad – San Marcos CA	$424,900	$551,600	$604,300
6	Los Angeles – Long Beach – Santa Ana CA	$354,700	$446,400	$529,000
11	Washington – Arlington – Alexandria DC/VA/MD/WV	$277,900	$339,800	$424,700
16	Sacramento – Arden – Arcade – Roseville CA	$247,600	$317,000	$375,900
17	Riverside – San Bernardino – Ontario CA	$221,000	$296,400	$374,200
92	Houston – Baytown – Sugar Land TX	$136,400	$136,000	$143,000

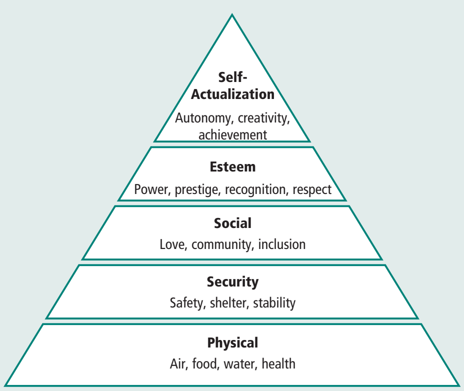
**Ranked for year 2005. p – preliminary. Data from National Association of Realtors® 2006*

Section 7 – Impacts on Federal Employees and Organizations

The lack of fair financial compensation takes advantage of our most valuable resource, our employees. Yet, the personal and career choices many federal employees in GLA and SFB areas are forced to make because of the flawed approach to locality pay are often unthinkable. There are many heart-wrenching stories about federal employees in both cities who were homeless, sharing small apartments based on working shift, and not being able to start a family because "they could not afford it." This problem has long-term ramifications for these employees. For example, we've seen low participation levels in the Thrift Savings Plan because "they need every dollar they make to have shelter and food." A summary of the GLA Employee Survey Results is provided in **Appendix E**. **Appendix F**, "In Their Own Words," provides selected quotes from this survey.

Financial hardship not only takes a personal toll on federal employees, financial challenges also have a serious negative impact on job performance. "Money Worries Hinder Job Performance"[20] was a recent headline in *USA Today*. This article reported on a 2005 report *Financial Distress Among American Workers*[21] which found that 80% of financially stressed workers spend time at their jobs dealing with or worrying about money issues. Money worries are also linked to high absenteeism and productivity woes. Financial stress leads to health problems such as high-blood pressure, weight gain and insomnia. The impact on performance will become even more apparent when the new pay-for-performance system is implemented. And although financial stress affects employees at all income levels, its effects on workers in lower-paying jobs are much greater.

More than half of our workforce reports that they are unable to perform their duties at an optimal level because of dealing with the stress and cost of long commutes, living in poor conditions, having to work a second job to pay the mortgage or rent, keeping food on the table, and buying other basics for survival. When Pay for Performance is implemented, our employees will be doubly disadvantaged as the distractions of struggling to survive in this high cost region prevent them from performing at an optimal level.



Maslow's Heirarchy of Needs

When people don't have the basics of life (food, shelter and safety) it's impossible for them to perform at high levels.

Pay-for-performance would be an excellent pay formula if employees nationwide were on equal footing regarding these basic needs, but they are not.

A disproportionate number of employees in high-cost cities are consumed with simply acquiring the basics of life. Therefore, the new formula discriminates against federal employees in high-cost cities.

Organizational performance is heavily impacted by workforce stability, so a high turnover has a damaging effect. Obviously, financial worries spur turnover, as employees who need more money look for new jobs, and the greater their need, the harder they look. This is a key factor in explaining why turnover at lower grades is so high.

Many federal agencies are only hiring for high-cost areas since these areas have the highest turnover. A large proportion of people who take jobs in these “hardship assignment” areas do so simply to get into the federal employment system. Most plan on transferring to low-cost locations or leaving federal service for better paying jobs in the private sector after being trained and getting some experience.

The impacts of high turnover rates, high vacancy rates, and long delays in filling positions lead to tangible costs such as increased costs for background checks, lost productivity because of understaffed agencies, and the high cost of training new employees. Intangible costs such as the loss of technical expertise and institutional knowledge are also apparent. The severity of these costs increases the longer the recruitment and retention problem continues.

Section 8 – A Proposed Solution

It's imperative that we regain the ability to recruit and maintain a highly skilled and trained federal workforce to meet our obligations to the public, state and local governments, and the nation. There is no doubt that a highly capable, federal presence in the GLA and SFB areas is vital to the health, safety, and welfare of the region and, ultimately, the nation. We must acknowledge the problem and act quickly to resolve it by providing fair salaries and/or supplemental benefits.

The Department of Defense (DOD) has a proven model they have used for years for their active duty personnel. In addition to their base pay, active duty personnel are given a Basic Allowance for Housing (BAH)[22] commensurate with their rank based on the housing costs of their assigned city. The BAH is adjusted annually based on changes in costs by location. This allowance is not taxable and does not count toward retirement or the salary cap.

Our proposed solution to the geographic pay disparity for our federal workers is modeled after the BAH; however, we refer to it as the Variable Housing Allowance (VHA) so as not to confuse the two.

We suggest that the RUS Locality Pay Rate be made the new CONUS Base Pay Rate and the current Locality Pay Rates for non-RUS areas be replaced with VHAs. Like the DOD model, the VHA would not be taxed and would not count toward the pay cap. This would create some room for performance pay without having to raise the pay cap.

The bulk of the cost could be offset in several ways:

1. Not all areas in the country would be eligible for a VHA. Compensation would be shifted from areas not needing the additional pay to those that do.
2. A true housing allowance would be a more accurate indicator of local costs than the current flawed system of locality pay, so overpayments would be avoided.
3. Improving recruitment and retention in high-cost cities would result in significant cost savings in hiring, training, transferring, temporary reassignments of employees on per diem to fill vacancies, long commutes in government vehicles, etc.
4. Current costs associated with the data collection and management of an ineffective locality pay system could be saved by using DOD's paid contractor who collects the data to set the BAH each year.

The following table (page 18) shows how it works. We used a 1st Lieutenant with 3 years experience as our active duty equivalent to the GS 9, Step 3 civilian employee salary with current locality pay rates. We also assumed the active duty officer and federal civilian both have a dependent. The military uses a lower BAH for active duty personnel without a dependent, but there is currently a proposal within DOD to offer one BAH regardless of dependent status.

Location	Rank/Grade	Salary	BAH	Total Monthly	Annual
San Francisco	Military – 1st Lieutenant	$3,541.20	$3,135.00	$6,676.20	$80,114.40
	Federal Civilian – GS-9/3	$4,200.58		$4,200.58	$50,407.00
Los Angeles	Military – 1st Lieutenant	$3,541.20	$2,010.00	$5,551.20	$66,614.40
	Federal Civilian – GS-9/3	$4,043.00		$4,043.00	$48,516.00
San Diego	Military – 1st Lieutenant	$3,541.20	$1,190.00	$5,531.20	$66,374.00
	Federal Civilian – GS-9/3	$3,872.83		$3,872.83	$46,474.00
Houston	Military – 1st Lieutenant	$3,541.20	$1,683.00	$5,224.20	$62,690.40
	Federal Civilian – GS-9/3	$4,146.75		$4,146.75	$49,761.00
Washington DC	Military – 1st Lieutenant	$3,541.20	$1,250.00	$4,791.20	$57,494.00
	Federal Civilian – GS-9/3	$3,854.58		$3,854.58	$46,255.00
Rest of U.S.	Military – 1st Lieutenant	$3,541.20	$666.00	$4,207.20	$50,486.00
	Federal Civilian – GS-9/3	$3,713.00		$3,713.00	$44,556.00

The shaded lines are the GS salaries for these six locations. Although the active duty officer's base pay is less than the GS's, when the BAH is added in, the monthly income is considerably higher. DOD implemented this system many years ago to reduce the impact of transfers of personnel to high-cost areas. Why not extend these benefits to the federal workforce in high-cost areas?

On the positive side, the Majority Staff of the House Committee on Government Reform (Subcommittee on Federal Workforce and Agency Organization) and the Senate Committee on Homeland Security and Governmental Affairs (Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia) recently developed a *Concept Paper for a Federal Law Enforcement Personnel System* which for the first time recognizes the need to provide housing assistance to federal LEOs in high-cost areas. Some of the pay enhancements (local and special market supplements) recommended will help; however, unless the pay cap is raised, many senior law enforcement employees will be unable to collect the proposed salary enhancements.

Although we understand the rationale for providing a housing allowance to LEOs (i.e., they are required to sign a "mobility agreement"), the administrative staff supporting LEOs should not be overlooked. Law enforcement agency administrative staff employees are paid less than LEOs to begin with, yet they have to live in the same high-cost areas as the LEOs. So why should they not be fairly compensated as well? As the pay gap grows between LEOs and support staff, resentment will increase, morale will decline, and it will be more difficult to recruit and retain essential support employees.

In addition, some law enforcement-related positions do not require employees to sign a "mobility agreement" and these employees are therefore not covered by the housing allowance. For example, DHS's CBP officers, who are important members of the homeland security team are not classified as LEOs (even though they carry weapons and have arrest authority) and would not benefit from this new personnel system.

Section 9 - Conclusion

We live in a changing world. Economics and demographics have undergone tremendous growth and realignment over the past several decades. And, indeed, they continue to grow and change at exponential rates. The terrorist threat is no longer confined to novels, action movies, television shows, or a war "over there." It has come to our shores and must be fought and won on our soil, in our backyards.

We have seen the horror of 9/11 and the tragedy in New Orleans and the Gulf Coast. It need not happen again. This is the greatest nation on earth, and our people have a right to expect us to protect them and keep their cities safe. But federal employees are citizens too, and they have the right to choose their own destinies and to seek a better life for themselves and their families.

A sleepy bureaucracy rife with apathy and blind to our recruitment and retention crisis has let down our citizens and public servants. We have no draft, no compulsory requirement for federal service. And now our public servants are exercising their rights to transfer, resign, or retire because they have lost faith in their employer. They are being forced to choose between their duty to defend the American Dream and to live the dream itself, and they're leaving. Where does that leave us? Who will stop this hemorrhaging federal capability?

We have presented the problem and offered viable recommendations. The concept of a Variable Housing Allowance for all federal civilian employees in high-cost areas and relaxing the pay cap will help us solve the recruitment and retention crisis we now face. But sweeping reform is needed.

Yes, it will cost money, at least initially. Over the long term, with increased efficiency, effectiveness, and proper redistribution of funds, these proposed changes may actually be cost-neutral or even result in savings. Is this topic worthy of priority consideration in the larger scope of government affairs? What could possibly have more bearing on the security of our nation than our very ability to protect our major cities, seaports, airports, infrastructures, and borders? Can we afford not to make this staffing crisis a high priority? We think not. If we fail the American people, it will not matter who takes the blame or who gains or loses in the polls.

Let us not fail to act—good conscience and moral obligation to our citizens demands it.

Appendix A – Federal Agency Recruitment and Retention Survey of the Greater Los Angeles and San Francisco Bay Areas

Sampling: The California FEBs conducted a survey of the departments and agencies in the GLA and SFB areas to determine the extent of the staffing problem, assess the potential implications of the problem from a national and public safety perspective, and determine the causes of the problem.

Sixty-seven departments and agencies responded with one agency having over 6,000 employees respond. The majority of personnel were under the General Schedule (GS).

Our Findings: Sixty-four percent of the agencies are experiencing problems in recruiting skilled and qualified staff.

A significant number of the agencies experience problems recruiting lower-paying occupations. GS 5 through 9 grade-level positions appear to be the most difficult to recruit. A higher salary in the private sector was the primary reason given for agencies' inability to attract high-quality, knowledgeable, and experienced applicants.

Forty-percent of the agencies stated that in addition to recruitment difficulties, employee retention is also a problem. Again, there seems to be greater difficulty in the retention of lower-graded GS employees. Many applicants use entry-level federal government positions to gain experience with the express purpose of transferring to lower-cost cities or taking higher-paying positions in the private sector. Agencies also indicated they are having problems retaining higher-graded GS employees in managerial and supervisory positions.

Recruitment: Job announcements were publicized widely by all agencies through internal agency postings, agency websites, internet sites, i.e., USA Jobs and recruiting at college job fairs as well as other methods. Of the agencies that responded, 37% indicated vacancies took over six months to fill. Many positions remain vacant even longer.

The following reasons were cited for positions remaining vacant:

- Candidates met minimum qualifications, but more qualified candidates were desired.
- There were more vacancies than qualified, available candidates.
- Highly-qualified applicants declined positions or withdrew from consideration because of low salary and high cost-of-living.
- Candidates did not meet suitability or security-clearance requirements.

The following reasons were cited for applicants accepting positions from highest to lowest in occurrence:

- Salary
- Benefits such as medical/life insurance
- Retirement, vacation and sick leave
- Flexible work schedules
- Relocation expenses
- Recruitment incentives
- Childcare and transit subsidy programs
- Job location

Retention: Benefits that influenced employees to remain federally employed are in the order of importance:

- Retirement benefits
- Medical and life insurance benefits
- Vacation benefits
- Sick leave benefits
- Flexible work schedules
- Retention incentive (ability to offer retention incentives varies by agency due to funding)
- Student loan repayment incentive (ability to offer varies by agency due to funding)

Approximately 30% of respondents have been in federal service for 11 to 20 years, which is a considerable investment toward retirement. Employees with over 15 years of service are more likely to continue their employment in order to qualify for retirement benefits. It is well known that the current federal workforce is aging with many employees eligible or nearly eligible for retirement. Agencies are experiencing difficulties in hiring younger workers to replace the aging workforce.

Reasons Employees Left Positions: The following were reasons for leaving federal positions from highest to lowest in occurrence:

- Retirement
- Transfer (inter-agency or to lower cost-of-living area)
- Promotion
- Resignation
- Death
- Involuntary termination
- Disability
- Other

The following were reasons for resignations from highest to lowest in occurrence:

- Relocation of spouse
- Private sector employment
- Personal/family
- School full time
- Other (unspecified)
- Portability of Federal Employees Retirement System

The following were reasons employees accepted private-sector employment from highest to lowest in occurrence:

- Higher salary
- More challenging work
- Stock options
- Health insurance
- Life insurance
- Reduced commute
- Promotion opportunities

The following were reasons for an employee's transfer from the area but continued federal employment from highest to lowest in occurrence:

- High cost-of-living

- Promotion or promotion potential
- Undesirable work location
- Personal and/or family obligation

Transportation Factors: About 30% of employees travel between 21-40 miles one way to work; about 20% travel 41-60 miles; and about five percent travel more than 100 miles.

A majority of employees who work in the GLA area spend 61-80 minutes one way to work followed closely by those who spend 41-60 minutes. A seven-mile, 15 minute commute on a Saturday or Sunday often takes 45 minutes or more during the week.

With gasoline costs increasing, commute distance is going to become a even greater concern and disadvantage for federal workers, e.g., when gas prices went up, most DHS/TSA intermittent workers resigned.

Most Comprehensive Sample: The following response was submitted by the Los Angeles Air Force Base (LAAFB) and captures the issues well. (Note: LAAFB is offering a 3% retention bonus to all employees.)

> The results of the LAAFB Pay Survey show a 10% vacancy rate at all times due to the area and its high cost. We have approximately 145 vacancies at all times and are unable to fill them because of the high cost-of-living. This represents all positions and grades at LAAFB. In the past year, there have been 30 declinations because of the location and high cost-of living. We had one person accept a position and then leave within one month. He transferred to a lower-cost area.
>
> We currently have employees seeking employment outside of the state because of the commute and high cost-of- living. Families are unable to live close to their families and at retirement they are finding themselves having to relocate to a lower cost-of-living area or seek employment once they have retired from federal service. As they near retirement, they are relocating to a state with lower costs of living.
>
> Approximately 75% of the employees live more than 20 miles from the base. They are spending approximately three hours or more commuting. There is an additional hardship now with gasoline prices. The flexed work-schedule has permitted flexibility in an attempt to offset the rush hour traffic. The grid-lock and a high price of real estate are continuously increasing, and it has direct impact on our recruitment. For the first time, for new appointees we have used an incentive "Superior Qualifications" to offset high cost. As a result, it has caused low morale amongst current employees who are experiencing new appointees coming in making more money than they are. There is recruitment bonus money available, but people are reluctant to transfer to Los Angeles; we are currently experiencing extreme problems with difficult recruiting with the cost of living so high in the Greater Los Angeles area.
>
> There have been two declinations from Hawaii, which is considered as expensive as the LA area. The average commute time for employees is two-to-three hours daily. This amounts to 15-20 hours per week spent on commuting to and from work and some have second jobs so that they can make ends meet. If this continues, we will not be able to meet our mission filling jobs.

Conclusion: In conclusion, the survey data revealed that high cost-of-living continues to be the primary concern for applicants and federal employees in the Los Angeles area.

Appendix B – Overview of the Federal Employees Pay Comparability Act

Overview: The Federal Pay System was designed with the premise that workers doing the same job should be compensated at the same rate. However, the current locality pay system, as implemented, fails to adequately recognize geographic variances in cost of living and cost of labor. The current system for determining grade structure often fails to recognize that in larger metropolitan communities the scope of work of federal employees is often far more complex than their counterparts throughout the nation, yet their grades are frequently the same.

In 1988, federal agencies in the three most expensive cities (at that time) were having a recruitment and retention crisis and could not fill vacancies in order to perform their missions. The Federal Executive Boards (FEBs) in New York City, Los Angeles, and San Francisco led a field-based initiative to raise awareness of the pay disparity between federal employees and their non-federal counterparts. Their efforts culminated in the passage of the Federal Employees Pay Comparability Act of 1990 (FEPCA), which created locality pay and required annual adjustments to federal employee salaries to make them more competitive. Implementation of this law was put off until 1994 to give time to create a locality pay system. Officials involved in setting up the new system worked for more than two years on many issues including the designation of locality pay areas and the means of calculating local pay gaps.

FEPCA Components:

- General increase based on Employment Cost Index minus .5%
- Locality adjustment where non-federal pay exceeds federal pay by more than 5%
- Phase-in adjustment to within 5% over time
- By 2000 - close pay disparity to 80%
- By 2001 - close pay disparity to 90%

Much has been written about FEPCA of 1990. In general, it is a law that was never fully implemented. It was designed to bring federal employees' compensation to within 5% parity of their non-federal salary equivalents.[1] This parity was to be reached over a ten-year period with the majority of the difference being made up within the first four years through the use of locality-based comparability adjustments beginning in 1994. Even though the law was first authorized for federal workers in 1990, the implementation was put off until 1994 in order to create a locality pay system. Officials involved in setting up the new system worked for more than two years identifying locality pay areas and designing the means of calculating local pay gaps.

[1]Estimates of non-federal salaries are based on annual surveys conducted by the Bureau of Labor Statistics (BLS) and are compared to General Schedule salaries to determine the differences, which are intended for use in sizing the annual Locality Pay Adjustments. However, the Bureau's surveys use five to six-year-old data. For example, the Council's Report to the Pay Agent on the 1999 locality payments included a recommendation that the Pay Agent direct the BLS to reinstate survey methodology previously approved by both of them. For surveys starting after October 1996, BLS switched to a new survey process. The re-surveying of 15 pay areas to conform to methodology approved by the Council or the Pay Agent was not done; therefore data from previous surveys had to be aged to March 1997. This resulted in surveys being an average of 10.9 months old as of the reference date of the pay gaps, March 1997. BLS was unable to collect any data for Rest of U.S. (RUS) and aged the entire RUS survey from its previous reference data of November 1995. Only half of the RUS data was actually new data on 1995 since half the 1994 sample was aged to reduce survey costs. (Federal Salary Council Memorandum for President's Pay Agent. October 26, 2000, Subject: Level of Comparability Payments for January 2002 and Other Matters Pertaining to Locality Pay Program).

Because the gaps were so severe in NY, LA and SF, an immediate eight percent interim pay adjustment was given to the federal employees in those locales. However, this was to be deducted from future locality pay adjustments once the law came into effect. As a consequence, these cities did not receive any additional locality pay adjustments until 1997.

FEPCA Implementation: The locality pay recommendations are made annually as a part of the President's Budget submission to Congress. The locality pay gap is calculated by the Federal Salary Council (FSC) and is used to develop a recommendation to the President's Pay Agent. The Pay Agent is a group made up of the Secretary of Labor, Director of the Office of Management and Budget, and the Director of the Office of Personnel Management. Using the data provided by the FSC, this group recommends a locality pay raise for the President to include in his annual request. The President makes the final decision. Since the law was passed, the Administration has used a provision in the law[2] to issue smaller raises than FEPCA has recommended each year because it believed that FEPCA methodology was flawed, and it wanted to hold down federal spending.[3]

The FSC, in its report to the Pay Agent on the 1999 locality pay payments, noted the credibility of the locality pay program is suffering because the small amount of money allocated for locality pay combined with changing the pay gaps each year leads to results that are hard for many to understand and accept. Adding to the difficulty is a disagreement over whether new BLS surveys that document non-federal rates of pay meet the requirements of FEPCA. The FSC, Pay Agent, and Office of Personnel Management questioned the validity of the surveys; the Pay Agent decided that the resulting survey data could not be used in determining the January 2000 locality payments. Each has pledged to cooperate in making the surveys suitable for use with locality pay.[4]

This same report goes on to say: "Despite concerns expressed by the Clinton Administration in 1993 that the methodology for locality pay was flawed, no proposals have been made to change the Federal Pay Law. A draft memorandum from the Pay Agent to the Council prepared that year concluded that 'the current methodology is flawed because the completeness of the data varies among survey areas, because the gaps are not credible in light of other labor market indicators, and because the single percentage adjustment for all jobs in a locality is a poor reflection of market realities.'"[5]

During the years when Locality Pay Adjustments[6] were made or could have been made, the President's Pay Agent used alternative methods to determine the size of the Locality Pay Adjustments instead of using the results of the FEPCA methodology. The researchers found no mathematical or descriptive information on how the President established the sizes of the Locality Pay Adjustments made in Fiscal Years 1995 through 2001. One likely method is that the Locality Pay Adjustment

[2]FEPCA required that the pay gap be incrementally closed over a period of several years to achieve "target gap" of no more than 5 percent. FEPCA requires that 90 percent of the target gap be closed by 2001. However, the President is empowered to fix an alternate level of locality-based payments if, because of a national emergency or serious economic conditions, he determines the levels that would otherwise be payable to be inappropriate. (Congressional Research Service Report for Congress [received through the CRS web] Federal Pay: FY 1999 Salary Adjustments, #97-1008-GOV, December 9, 1998, Summary, Author: Barbara L. Schwemble).

[3]"Big Apple Blues" by Gary M. Stern, *Government Executive Magazine*, May 1999.

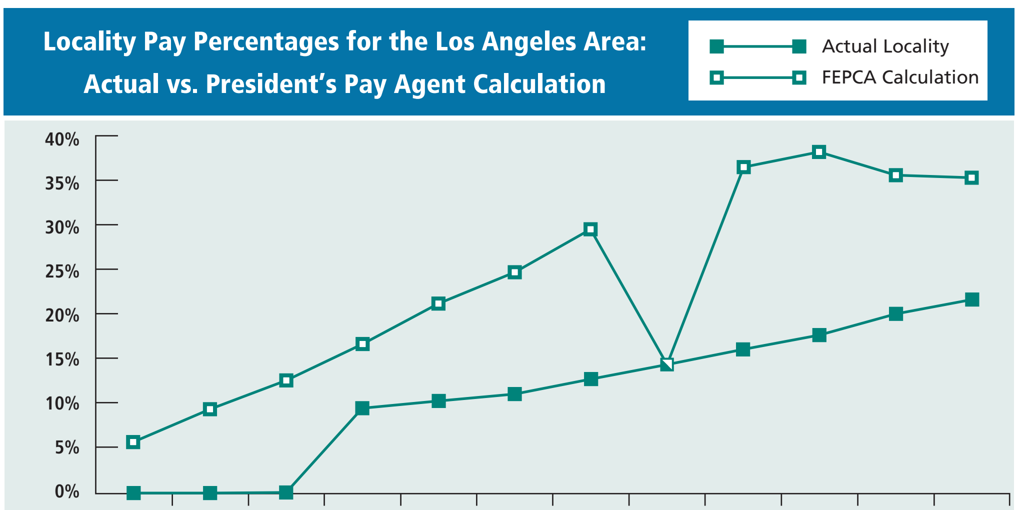
[4]According to the Congressional Research Service in *Their Federal Pay: FY 1999 Salary Adjustments Report for Congress* #97-1008-GOV, (Summary).

[5]Ibid.

rates were established based on their aggregate cost impacts on the General Schedule payroll and the annual federal budgets.

Despite a consensus that the methodology used was flawed, the locality system was expanded with no proposals to amend or correct the methodology and continued adding new locals even though they would never receive the recommended amounts. As a result of these increases, now about 60% of General Schedule employees are within one of the established locality pay zones.[7] These locales continue to grow with the expansion of the counties and territories within established metropolitan areas. Attempts to expand coverage of the law, which has not been fully implemented, has eroded its initial impact and once again we are having a recruitment and retention crisis particularly in high cost cities. Even those who have asserted that federal employees are not underpaid state that "…there are occupations in locations throughout the Federal Government where the government is not competitive. Information technology professionals were obviously one, as were federal employees in certain high-cost areas such as New York, San Francisco, Los Angeles, Chicago, and a few others. FEPCA has made some improvements in locality pay but it has certainly not corrected the problem."[8]

Current Gap: As the following chart shows, in the Los Angeles area pay increases implemented have consistently lagged behind the Pay Agent's calculations for the annual Locality Pay Adjustment.



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Actual Locality:	0.000	0.000	0.001	0.095	0.103	0.111	0.128	0.144	0.161	0.177	0.201	0.217
FEPCA Calc:	0.057	0.094	0.126	0.167	0.212	0.247	0.295	0.144	0.365	0.382	0.356	0.353

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[6]FEPCA methodology for determining the sizes of annual Locality Pay Adjustments to achieve the 5% target gap, as follows: ALPA = (NFS - [AS + APA]) - 5%, where:

ALPA	=	Annual Locality Pay Adjustment (%)
NFS	=	Non-Federal Salary amounts
AS	=	Annual Salary amounts
APA	=	Annual Pay Adjustment

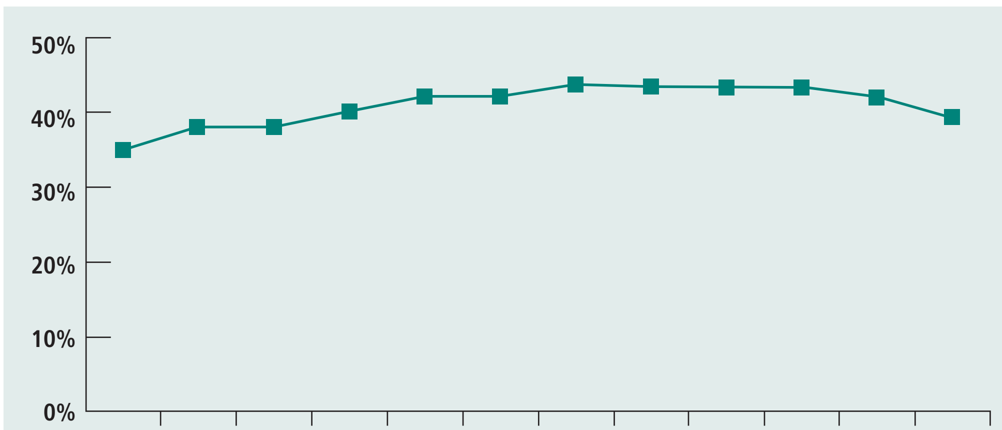
[7]Federal Employees News Digest, Almanac 2001, 48th Edition: Locality Pay Boundaries.

[8]The FMPI Insight, by Gary Koca "Special Salary Rates, Pay Inequities and Federal Employees: April 10, 2001, FMPI Communications.

Ironically, had the President's Pay Agent recommendations[9] been implemented, the goal of FEPCA would have been achieved, and the pay gap between federal employees and their non-federal counterparts would have been reduced to 5% by the year 2001.

Instead, the pay gap that exists has steadily widened. According to the President's Pay Agent, the pay disparity for the Los Angeles Consolidated Statistical Metropolitan Area rose from 34.85% in 1994 (recognizing it was 42.85% in 1990) to a projected 39.24% in 2005. The following chart shows this trend.

Pay Gap Comparison Since 1994



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Pay Gap:	34.9%	38.0%	38.0%	40.1%	42.1%	42.1%	43.7%	43.4%	43.3%	43.3%	42.0%	39.2%

With FEPCA, 28 pay localities were established (27 metropolitan zones and one called Rest of U.S., or RUS).[10] To date a total of 32 Locality Pay Areas have been developed. In FY 06, Kansas City-MO/KS, St. Louis, MO, and Orlando, FL, Locality Pay Areas are being eliminated and will be included in the Rest of U.S. Locality Pay Area, and three new Locality Pay Areas are being established—Buffalo, NY, Phoenix, AZ, and Raleigh, NC.

[9]Annual Report of the President's Pay Agent 1994, 2000.

[10]Federal Employee Almanac, 2000, Page 11.

Appendix C – 2006 Locality Pay Percent Reported

2006 Locality Pay Percent Reported and Amount Above Rest of U.S. (RUS)

Locality Pay Area – January 1, 2006	% Reported	% Increase from 2005	% Actual > RUS
San Francisco – Oakland – San Jose CA	**28.68%**	**2.29%**	**16.16%**
Houston – Galveston – Brazoria TX	26.37%	1.60%	13.85%
Los Angeles – Riverside – Orange County CA	**23.18%**	**1.53%**	**10.66%**
New York – Northern New Jersey – Long Island NY-NJ-CT-PA	22.97%	1.98%	10.45%
Hartford CT	21.30%	1.78%	8.78%
Chicago – Napierville – Michigan City IL-IN-WI	21.15%	1.45%	8.63%
Detroit – Ann Arbor – Flint MI	21.00%	1.33%	8.48%
Boston – Worcester – Lawrence MA-NH-ME-CT-RI	19.99%	1.50%	7.47%
Denver – Boulder – Greeley CO	19.94%	1.88%	7.42%
San Diego CA	19.19%	1.51%	6.67%
Philadelphia – Wilmington – Atlantic City PA-NJ-DE-MD	18.04%	1.88%	5.52%
Seattle – Tacoma – Olympia WA	17.93%	1.51%	5.41%
Sacramento – Arden – Arcade – Truckee CA-NV	17.91%	1.37%	5.39%
Miami – Fort Lauderdale FL	17.84%	1.40%	5.32%
Washington – Baltimore – Northern Virginia DC-NJ-VA-WV	17.50%	1.40%	4.98%
Minneapolis – St. Paul – St. Cloud MN-WI	17.31%	1.07%	4.79%
Portland – Vancouver – Beaverton OR-WA	17.16%	1.61%	4.64%
Cincinnati – Middleton – Wilmington OH-KY-IN	17.08%	1.32%	4.56%
Dallas – Fort Worth TX	16.39%	1.23%	3.87%
Raleigh – Durham – Cary NC	15.57%	**3.15%	3.05%
Cleveland – Akron – Elyria OH	15.42%	1.17%	2.89%
Atlanta – Sandy Springs – Gainesville GA-AL	15.10%	1.23%	2.58%
Columbus – Marion – Chilicothe OH	14.85%	0.87%	2.33%
Milwaukee – Racine – Waukesha WI	14.75%	1.13%	2.23%
Richmond VA	14.15%	1.00%	1.63%
Dayton – Springfield – Greenville OH	13.83%	0.97%	1.31%
Pittsburgh – New Castle PA	13.81%	0.95%	1.29%
Kansas City MO-KS	*	0.99%	N/A
Buffalo – Niagara – Cattraugus NY	13.52%	**1.10%	1.00%
Hunstville – Dacatur AL	13.35%	0.93%	0.83%
St. Louis MO-IL	*	0.43%	N/A
Indianapolis – Anderson – Columbus IN	12.85%	0.84%	0.33%
Orlando FL	*	0.77%	N/A
Phoenix – Mesa – Scottsdale AZ	12.65%	0.93%	0%
Rest of USA	12.52%	0.80%	0%

**Locality Pay Area moved to RUS Locality Pay Area in 2006*

***Locality Pay Area created in 2006*

Source: www.opm.gov, 2001, 2003 & 2005

Appendix D – Relocation Calculations

Relocation Calculations for an Individual Moving from Los Angeles/Long Beach or San Francisco to 10 Major U.S. Cities

Destination City (% Locality Pay)	Salary in Los Angeles / San Francisco	Salary Required to Maintain LA/SF Living Standard	% Increase or Decrease
Baltimore MD (17.50%)	$60,000 / $65,000	$44,773 / $45,003	-25% / -31%
Cincinnati OH (17.08%)	$60,000 / $65,000	$35,086 / $35,266	-42% / -46%
Denver CO (19.94%)	$60,000 / $65,000	$37,959 / $38,154	-37% / -41%
Houston TX (26.37%)	$60,000 / $65,000	$33,566 / $33,738	-44% / -48%
Miami FL* (17.84%)	$60,000 / $65,000	$43,844 / $44,069	-27% / -32%
Portland OR (17.16%)	$60,000 / $65,000	$43,597 / $43,821	-27% / -33%
Philadelphia PA (18.04%)	$60,000 / $65,000	$46,754 / $46,995	-22% / -27%
Washington DC** (17.50%)	$60,000 / $65,000	$53,731 / $54,007	-10% / -17%
Anchorage AK (25% COLA)	$60,000 / $65,000	$44,496 / $44,725	-26% / -31%
Honolulu HI (25% COLA)	$60,000 / $65,000	$61,588 / $61,905	+3% / -5%

**Includes Dade County* ***Includes Arlington & Alexandria VA*

Cost of Living Calculator: www.bankrate.com. **Cost of Living Comparison Calculator** based on ACCRA.
Cost of Living Data from www.costofliving.org

Appendix E – Recruitment and Retention Project Employee Survey Summary

Conducted by the Federal Executive Board Greater Los Angeles Area

500 surveys analyzed to date from employees of the following agencies:

- Department of Defense/Los Angeles AFB
- Department of Homeland Security/U.S. Coast Guard
- DHS – Citizenship and Immigration Services
- DHS – Immigration and Customs Enforcement
- Department of Health and Human Services
- Department of Justice
- Drug Enforcement Administration
- Department of State/Los Angeles Passport Agency
- Department of Treasury/Internal Revenue Service
- Environmental Protection Administration
- National Labor Relations Board

The grades of the participants were GS-5 through GS-15.

The locations of the respondents' offices:

Camarillo, El Monte, El Segundo, Glendale, Los Angeles, Laguna Niguel, Long Beach, Orange County, Riverside, San Bernardino, San Diego, San Francisco, San Pedro, Santa Ana, Van Nuys, Ventura, and Woodland Hills.

Respondents lived in California for:

- 62% have lived here for 10 years or less.
- 27% have lived here for 11 - 20 years.
- 8% have lived here for 21 years or more.

29% of respondents were force-transferred to Los Angeles.

56% of respondents plan to leave California and remain with the federal government.

Note: The 56% of employees who plan to stay with the federal government but leave California plus the 14% who plan to stay in California but take a different job means that there is a potential for California federal agencies to lose up to 70% of their work force in the near future. This is particularly critical in a time when California is experiencing increasing growth in industry and population.

81% of those trying to leave California because the cost of living and cost of housing are too high in California.

14% of respondents plan to leave the federal government and remain in California because they need to make more money to survive.

77% of respondents feel they are not fairly compensated for their work.

One of the main reasons cited as to why they feel they are not fairly compensated was that the cost of living and home prices are too high.

"The increase in home prices is disproportionate to the increase in my salary. Consequently, my ability to save and purchase a home has become significantly more difficult."

Another writes, "My research has shown that someone that performs the duties that I perform and holds the level of education and work experience that I do is being paid in the private sector in the range of $75,000 to $90,000 yearly. **I am currently being paid $15,000 less than the bottom of that [private sector's] range.**" (GS-11) This respondent, a U.S. Coast Guard employee, plans to either leave California and stay in the federal government or stay in California and find a different job.

Respondents stated that they could be making more money if they worked outside of the federal sector. Many cited inequality of federal locality pay in relation to the cost of living. A majority felt that their workload is equivalent to their counterparts in non-federal occupations, but their compensation is much lower, particularly in law enforcement.

51% of respondents stated that their daily commute was 21-100 miles (one way).

A great majority of individuals who travel more than 40 miles (1½ - 2 hours each way) to their jobs cited that they were not able to afford desired housing in the area that they worked. Others were transferred to a different job location within the commuting area and could not relocate due to housing costs.

51% of respondents reported that they spend 10-30% of their gross income on commuting costs each year.

Note: Federal law enforcement employees who are in the 1811 series have Official Government Vehicles. These long commutes also increase costs to the government.

"I typically spend as much as three hours a day (1.5 hours each way) on the road just getting to and from the office. Living this far away from the office is necessary because I cannot afford anything closer in a safe neighborhood. Even though I now have equity in my house, I cannot move to a more desirable area because the housing prices are astronomical. IRS employee GS-14. **Note: This amount of time spent on the road reduces efficiency and quality of life which in turn has a further compounding effect on workplace productivity.**

69% of respondents own a home; 39% of those purchased their home before 2000.

Almost all of the individuals who did not own a home stated that they were not able to afford a home with the current salary they receive.

53% of homeowners spend more than 30% of their gross income on their mortgage. 53% of renters spend more than 30% of their gross income on their rent.

Note: Financial planners advise that not more than 30% should be spent on mortgage or rent.

75% of respondents did not know that federal employees in Houston TX, are paid a higher salary than employees in Los Angeles and only 2% less than federal employees in San Francisco.

57% of the respondents stated that their job complexity was greater than their counterparts in Houston, TX.

18% of respondents have contacted their congressional representative about their pay

49% of those received no reply.

69% of respondents are not fully contributing to the Thrift Savings Plan (TSP).

Employees answered that they were not able to afford to contribute the full amount to their TSP. Some wanted to save money for a down payment on a house, others "need every dollar to survive," and others have taken out Hardship or Residential Loans from the TSP.

55% of respondents stated that the high cost of living and related challenges impacted their ability to perform their jobs at the optimal level.

Many others said although their work performance does not suffer, their personal life, health, marriage, and opportunity to spend time with their children is adversely impacted.

Here is a look at the statistics for the Department of Homeland Security (DHS) employees when asked if they felt stress, and if so, how the stress of the high cost of living, housing difficulties, and long commutes impacted Los Angeles' ability to react in the case of an emergency?

—73% of DHS employees stated that they feel they are not fairly compensated for the work they do.
—55% of DHS employees are planning on leaving California but remaining with the federal government. 82% of these respondents cited cost of living as their reason for leaving. Another 5% are planning on staying in California but taking a different job, again citing cost of living as their reason.
—More than 50% of DHS employees live more than 20 miles away from their workplace. And 55% of these same people feel that the hardships such as the high cost of living, housing difficulties, and long commutes, impact their ability to perform their job at an optimum level.

Appendix F – In Their Own Words

Comments from the Federal Employees in the Greater Los Angeles Area

"Until the cost of losing highly skilled and patriotic specialists exceed the perceived cost of doing nothing, it is unlikely things will improve."

—USCG employee GS-12

"Many of my co-workers, especially new employees, are planning to transfer out of L.A. as soon as possible due to high cost of living. The only reason more agents are not leaving L.A. is because the Special Agent in Charge will not approve transfers to other states."

—ICE employee GS-13

"I came to L.A. alone, under a forced transfer four years before I was eligible to retire. I could never afford to buy a home in a decent area in L.A. It has been difficult to save any money. **I feel my ability to prepare for a decent retirement has been hindered**."

—ICE employee GS-13

Note: This employee is not contributing fully to the Thrift Savings Plan.

"As it is now, **I will never achieve that American dream** of owning my own home unless I leave California and find employment in a low cost of living state."

—USCG employee GS-7

"My research has shown that someone that performs the duties that I perform and holds the level of education and work experience that I do is being paid in the privates sector in the range of $75,000 to $90,000 a year. **I am currently being paid $15,000 less than the bottom of that [private sector's] range**."

—USCG employee GS-11

"We no longer can hire the best and the brightest in our job. We now have to consider whether the person is from CA and has the resources (family-parents or spouse) to be able to live here. I have seen this in my own office over the years. **We have lost the past 4 people we have hired due to the high cost of living here and the inability of them to afford decent housing.** One moved to Dallas, another to Oklahoma City, one to Phoenix, and another to a home he already owned in San Diego and that he commuted from for 4+years. They have all chosen to stay with their job but have been forced to relocate due to the high cost of housing. **We end up being a training ground for new agents who are forced to relocate because they cannot provide the basic necessities for their families here.**"

—IRS-CID employee GS-13

"The police officers in my task force make substantially more money and have better benefits. I feel **tremendous stress due to the high cost of living** in California, My wife stays home with our newborn and for us to live in a "decent" area requires 50-60 percent of my take home pay...As a result of the combination of factors my wife is stressed out and our home life is tense due to the tight money situation. Finally, as a DEA agent in Los Angeles I work the most complex cases in the United States and this stress combined with the stress of making the bills is very discouraging. **Since the day I arrived in California, I have been looking to transfer out of the state of California** and move to a more affordable situation."

—DEA Special Agent GS-11

"Given the drastically rising cost of housing in the Los Angeles/Orange County area, the prospect of owning a home without assuming a high risk "interest only" loan is woefully bleak. **As a newly married employee in the Los Angeles area, the likelihood of both purchasing a home and starting a family is equally unlikely. When men and women sworn to defend the nation, which we all love, are saddled with the prospect of never being able to achieve the American dream themselves, can our country realistically expect the security that it both needs and deserves?"**

—DHS employee GS-11

"Eventually, I will search for and find another job in a lower cost area. It is simply too expensive here to purchase a home, save for retirement and have the spending power of employees in lower cost areas such as Houston, TX."

—USCG employee GS-12

"The cost of living is LA is outrageous. I had a nice house back in Texas before I moved here and my mortgage was $800 per month. My 1 bedroom 1 bath shack in CA runs me $1250 per month. Being from Texas I have first hand knowledge of the cost of living there and here in LA. **It is not fair, and frankly stupid, that Houston gets a higher locality pay than us**."

—DHS employee GS-7

"I live in one of the poorest and most unsafe areas of L.A. because it is the only place we could afford to buy (that was three years ago) and not by choice. A second income from a working spouse is a necessity just to take care of a family of four. I still drive a 10 year old used car. If I was offered this job today in my situation I would not and could not afford to take it."

—ICE employee GS-12

"I will retire as soon as possible (10 years from now) and take another position. It is the only feasible way to make more money. At that time my children will be entering college and I will need the extra income. At the time I retire I could still work for the federal government for 7 more years but the money will not be there. I am trapped in my current residence. If I had to purchase my home now I could not afford it. **As long as I stay in California I am stuck. Therefore the alternative is to look for a cheaper place to live.**"

—DHS employee GS-13

"If we are faced with the challenges of living in a state that has a high cost of living, then we should be compensated for it."

—DEA employee GS-9

"Housing and general cost of living are so expensive that it is somewhat demoralizing. When you hear what people pay for a house in other states versus what they are paid, you want to move to one of those locations."

—HHS employee GS-13

"**My wife and I are living paycheck to paycheck and are constantly attempting to make ends meet**. While I will always give 100% to my job, the constant level of stress caused by the high cost of living must affect my performance in some ways. **Unless one has resided in CA for the past three years or more, buying a house is virtually impossible**. A conventional loan would cost at least 70% of my salary, thus making an interest only loan the only option. While the cost of homes, property taxes etc., are the worst factors, the price of gas and basic other living expenses are much more than virtually anywhere else in the country. **Agents are seeking to leave the Los Angeles, Orange County area as quickly as possible because of the cost of living**. I do not have the space in my 900 square foot condo for a family. My wife and I do not feel we could even afford having a child much less buying a bigger home to suit a family."

—DHS employee GS-9

Notes

1 A 1961 Executive Letter, signed by President John F. Kennedy, established Federal Executive Boards (FEB). The City of Los Angeles was mandated to establish a FEB in 1963. Currently, 28 FEBS exist nationwide. Similar to the President's Cabinet in our Nation's Capital, FEB membership becomes automatic and mandatory by virtue of the incumbent being the senior agency official within the FEB's geographic boundaries. Unlike the Cabinet, membership is not limited to Department-level organizations. Federal Executive Boards were established to strengthen the management and administration of Federal activities, improve intergovernmental coordination at the local level, and increase community involvement by the Federal government.

2 *Congress Daily*, Bush remarks focus on border security **www.govexec.com**

3 *USA Today*, March 28, 2006, "Brain Drain Hits Homeland Security" by Mimi Hall

4 **www.washingtontechnology.com/news/21_05/federal/28169-1.html**

5 Office of the Mayor New Release: "Mayor Antonio Villaraigosa Announces Homeland Security Advisors," February 16, 2006

6 *Inside Bay Area*, February 17, 2006 "Oakland Fastest Growing Port in the West," by Paul T. Rosynsky

7 *The Journal of Commerce*, August 15, 2005 – This report lists the Los Angeles port as the 8th largest in the world and the Long Beach port as the 12th largest in the world. From a federal perspective, we treat these as one combined port, so when the volume processed at the 8th and 12th largest ports in the world is added together Los Angeles/Long Beach ranks 5th (behind Hong Kong, Singapore & Shenzhen). The New York/New Jersey ports are #15, Oakland, CA #40, Charleston SC #45, Hampton Roads VA #48, Tacoma WA #49 and Seattle WA #50.

8 Linda M. Springer, Director of the U.S. Office of Personnel Management in a *PA Tmes* article titled "Ride the Federal Hiring Wave," February 2006

9 *The Washington Post* (**www.washingtonpost.com**), February 16, 2006, by Stephen Barr

10 **www.opm.gov/feddata/html/paystructure/2003/fepca1990.asp**

11 **www.opm.gov/oca/06tables/indexGS.asp**

12 **www.bankrate.com**

13 *San Jose Mercury News*, March 24, 2006; "Bay Area Brain Drain" by Jessie Seyfer

14 Center for Immigration Studies, *Immigrants in the United States – 2000, A Snapshot of America's Foreign-Born Population*, by Steven A. Camarota, January 2001

15 "Raising Pay," April 1, 2001, www.govexec.com

16 www.govexec.com Feb. 9, 2006

17 *San Francisco Chronicle*, June 30, 2005

18 www.hud.gov

19 www.forbes.com

20 *USA Today*, October 4, 2005 "Money Worries Hinder Job Performance," by Stephen Armour

21 2005 review of surveys and published research studies by E. Thomas Garman, professor emeritus at Virginia Tech University, and other researchers

22 BAH data available at www.dod.mil/militarypay/pay/bah/index.html